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SUBJECT: REMITTANCES AND MIGRATION PART I: A VIEW FROM  
RURAL MICHOACAN

Sensitive but unclassified, entire text.

This is the first in a series of four cables examining the effect of U.S. migration and remittances on the economy of rural Mexico.

11. (SBU) Summary. Immigration to the U.S. and the subsequent transfer of wealth through remittances is having a major social and economic impact in rural Mexico, as financial transfers are the primary source of income in many areas. While emigration has been common since the 1970's, the rate has dramatically increased in recent years due to a growing agricultural crisis and significantly higher wage rates in the U.S. With remittance income so important to struggling rural communities, migration is implicitly, if not officially, encouraged by local leaders. The amount of money sent back to Mexico grew by 17% in 2005 to 20 billion dollars (according to estimates by the Bank of Mexico), and federal, state, and local governments have instituted numerous programs to capitalize on this boom. However, rather than being used for long-term investment, these transfers are more often used for basic consumption or to supplement inadequate entitlement programs. While a critical source of revenue, remittances are unlikely to spur significant economic development in rural areas without corresponding social reforms designed to create an environment more conducive to entrepreneurship and investment. End summary.

#### MIGRATION DRIVERS

12. (SBU) Many of the reasons for the record level of migration can be seen in rural Michoacan, an agricultural state known as "the garden of Mexico." The economy of Venustiano Carranza, a community of approximately 50,000 residents, has traditionally been based on tomato and onion farming. Eight members of the city council, all born and raised there and considered pillars of the community, discussed current migration issues from a local perspective. The city council members explained to Econoff that the rate of emigration was greatly accelerated in the late 1990's when tomato and onion prices dropped dramatically, creating a severe economic depression and eliminating most employment opportunities for younger workers. According to Ricardo Garcia, president of the local farming cooperative, this dire situation has continued with only 30% of arable land presently being farmed due to low prices and a lack of irrigation. Jesus Davila, the city accountant, provided Econoff illustrations of the economic malaise - municipal tax

revenue has fallen by 25% since 2000, while the local rate of unemployment has risen by 35%. These developments have affected almost every facet of community life, limiting educational and advancement opportunities. While all of the City Council members extolled the value of education, the region's only post-secondary school was closed in 2003 due to low enrollment.

#### THE SOCIAL IMPACT OF MIGRATION

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13. (SBU) All of the leaders of Venustiano Carranza agreed that migration to the U.S. and the resulting economic transfers were necessary to ensure the survival of the town. Dr. Sergio Gudino, Council Secretary, admitted to Econoff that emigration to the U.S. is seen as an honor and an obligation by most citizens. This attitude is encouraged by civic leaders; Javier Mendez, another council member, stated that he had two sons working in the U.S., and another was about to leave. Mendez also claimed that 80-85% of families in the town had at least one migrant, and that approximately 50-60% of the total city population resided in one of two homogeneous communities in California - Winter Garden and Oxnard. Indeed, the streets of Venustiano Carranza were inhabited almost exclusively by the very young or the very old.

14. (SBU) This large-scale migration has also resulted in powerful migrant associations in the U.S. which often exert significant influence in local policy making, even from their remote location. The city council of Venustiano Carranza consults with association representatives in California after each council meeting, as well as before all important decisions. The mayor of Cojumatlan, a small town located on Lake Chapala about twenty kilometers to the northwest, has

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found it necessary to make three trips per year to the U.S. in order to brief their relevant associations regarding community projects and issues. This influence, however, appears to encourage greater transparency and accountability on the part of local leaders, and was at least officially welcomed by the representatives of Venustiano Carranza. On the street, the involvement of emigre federations appeared to be quite popular with residents of the town, with several shoppers conveying their support for this phenomenon to Econoff.

15. (SBU) Most of the city council members expressed to Econoff that the majority of migrants plan to return, although anecdotal evidence seems to suggest this does not often occur. Javier Martinez, a council member, explained that normally the head of the household or the eldest son will migrate alone at first, leaving the rest of his family in Venustiano Carranza, until established in the U.S. Various City Council members mentioned that as time has progressed there are an increasing number of whole families who have now relocated. However, while the eventual return of many of these families may be dubious, the migrants' financial commitment to their hometowns appear to remain high, perhaps due to typically strong remaining family ties. As evidence of this commitment, city council representatives pointed out the festival of the patron saint (which occurs in June each year), during which the city population nearly doubles due to temporary return of the Diaspora.

#### THE ECONOMIC IMPACT OF MIGRATION

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16. (SBU) One of the fundamental questions posed by remittances is whether this income allows poor recipients greater economic, educational, and social advancement opportunities. Today, the population of Venustiano Carranza is almost completely dependent upon financial transfers from the U.S. (estimated to be 60-70% of the total economic activity of the city by council members), which serve in many

cases as a substitute for lost agricultural profits. As a result, most remittance income seems to be utilized primarily for basic consumption. As many economists estimate that each dollar sent back to Mexico actually creates wealth by a factor of 1.8, the real life impact of remittances may even be greater. Practical examples of this impact were evident during a visit to the local market. Maria Esquivel, a life-long resident of Venustiano Carranza, told Econoff that the meat she was buying was paid for by wire transfers she receives from her husband in the U.S. Juanita Ramirez, another resident, explained that while she earns a small income working in her parents' grocery store, the money sent by her husband enabled her to rebuild her home. Maria Perez said that although she receives a small widow's pension, remittance income from her son is necessary for her to survive. Although several examples of family businesses being funded by remittances were provided by city council members, they tended to be small grocery stores not likely to produce significant employment opportunities or tax revenue.

17. (SBU) A more promising route to longer-term economic development is government initiatives such as the "Three-for-One" program created by the Fox administration in 2002. Under this program, each dollar donated by migrant groups in the U.S. to be used for local infrastructure improvements is matched by federal, state, and municipal governments. Since proposals are submitted and supervised by migrant associations in conjunction with municipal authorities (although approved by a standing committee in Mexico City), there may be a potentially higher level of communication, transparency, and accountability concerning development projects than in the past, not to mention a higher level of funding. "Three-for-One" has already made a large impact in Venustiano Carranza; the city council described several recent projects, including the renovation of a historic church and restoration of the central plaza. Although Gudino admitted that conflicts regarding community priorities occasionally arise between the council and the associations (with associations tending to favor beautification projects instead of badly needed infrastructure improvements), he described "Three-for-One" as a windfall for the financially depressed community. According to Gudino, Venustiano Carranza undertook 1 project in 2003, 3 projects in 2004, and 4 in 2005, demonstrating the growth of the program. City Council members also described

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planned future projects for Econoff which may help revive local economic fortunes; the construction of a new fish oil processing plant and an irrigation project.

18. (SBU) Implementing a different strategy than Venustiano Carranza, leaders in Cojumatlan have prioritized improvement of educational opportunities. According to city Mayor Leonardo Hernandez, Cojumatlan has suffered a similar fate as Venustiano Carranza, losing nearly the entire youth population to migration due to lack of employment opportunities. Despite exploring ways to attract tourism from being located on Lake Chapala, Cojumatlan has also seen its economic fortunes deteriorate. However, Hernandez has implemented several specific programs designed to utilize the wealth created by migrants; 2005 saw the purchase of a new school bus as well as the construction of a new computer training center, both funded by donations by Cojumatlan's expatriate community in Oxnard. Hernandez explained that the school bus was a critical need, allowing numerous secondary school students an educational opportunity for the first time. While Hernandez agreed that most remittances sent directly to family members are used as subsistence income, he expressed hope that a new Caja Popular Mexicana credit union just built would be able to encourage local small business by offering financial services previously unavailable in Cojumatlan.

COMMENT

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¶9. (SBU) "Three-for-One" and other independent programs based on remittance income offer potential for rural economic development. The increasing prevalence of these programs demonstrate their popularity, and the growing power of migrant associations may promote greater accountability and transparency in local government. However, the programs' ability to create significant economic advancements may depend on willingness to emphasize educational and infrastructure projects over beautification. Moreover, contributions through government programs such as "Three-for-One" still represent a small percentage (estimated by the Bank of Mexico at 5%) of the total wealth transferred back to Mexico.

¶10. (SBU) In general, remittances do not appear to have stimulated substantial economic growth in rural Mexico. Remittance income is literally enabling the existence of many towns such as Venustiano Carranza and Cojumatlan by taking the place of traditional agricultural income. Buttressed by this artificial income source, these communities seem to defy the laws of global economics. However, there may be a vicious cycle; because of systemic lack of investment and other external factors, they are dependent upon foreign-earned income for survival. But as this dependence has increased, societal pressure encouraging the most productive members of the population to migrate has also increased. For this reason the chances for economic revival may progressively become more remote. While a great opportunity for Mexico, remittance income alone is probably not a panacea for Mexico's rural economic woes. Instead, in some ways migration could be considered an addiction for rural Mexico - deleterious to the long-term health of a community but providing a short-term fix. Without systemic educational and social reforms creating a stronger entrepreneurial culture, remittances are unlikely by themselves to fuel significant economic activity. However, remittances may reduce the pressure to enact these difficult reforms, possibly explaining some of the policies and reactions regarding this issue by the elite Mexican political class.

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